Income Tax -Military Servicepersons – Federal Law on Taxing Military Income

Does Colorado's method of taxing nonresidents comply with the Servicemembers Civil Relief Act of 2003, which prohibits states from using the "California Method" of taxing nonresident military servicepersons stationed in a state?

Yes. Colorado's method of calculating the tax complies with the federal law because Colorado uses a flat 4.63% tax rate.

The new law prohibits a procedure used in several states with graduated income tax rates. The procedure, known commonly as the "California Method," considers a servicemember's total household income when determining the tax rate to be applied against the portion of household income that may be taxed by that state and potentially results in the use of a higher tax rate when computing the tax.

Because Colorado does not have a graduated rate, it does not matter whether a taxpayer applies the nonresident percentage to the income and then calculates the tax, or calculates the tax and then applies the percentage. In either case, the tax is the same. For example, a nonresident military couple in Colorado has gross income of \$55,000; \$30,000 from the husband's military pay and \$25,000 from his wife's nonmilitary job in Colorado. Their percentage of Colorado income to total income is 45.45%. Their taxable income is \$39,400. The two methods of calculating the tax are as follows: \$39,400 times 4.63% equals \$1824 times 45.45% computes a net tax due of \$829. \$39,400 times 45.45% equals \$17,907 times 4.63% computes a net tax due of \$829.